



City of Sedro-Woolley Sewer Financial Outlook & Volume-Based Rates

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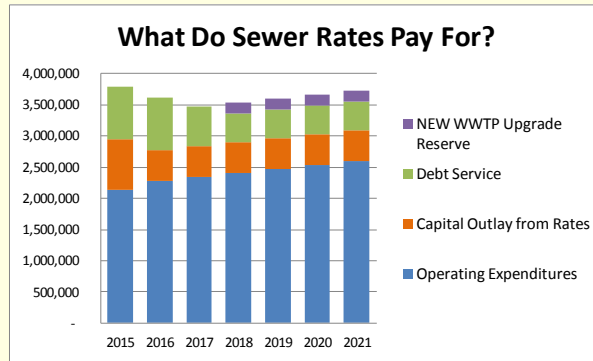


What Was Reviewed?

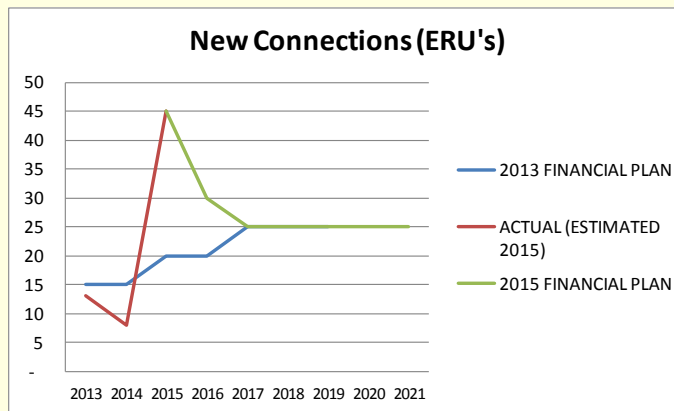
- Are rates sufficient to meet the basic needs?
- Are the 2013 decisions working out?
 - Rates to increase annually by CPI
 - Connection charge at \$6,995
- What if the City changed to volume-based sewer rates?



Sewer Rates – Fund 401



Compare Outlook for New ERU's



2013 Plan = 50 for 2013-2015, Actual = 66 with estimated 2015



Review Rates & New Connections

| 2013 SIX-YEAR FINANCIAL PLAN | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 |
|---------------------------------|---------|---------|---------|---------|---------|---------|---------|
| New Connections (ERU's) | 15 | 15 | 20 | 20 | 25 | 25 | 25 |
| Connection Fee | \$7,000 | \$7,000 | \$7,000 | \$7,000 | \$7,000 | \$7,000 | \$7,000 |
| Monthly Rate Increase - by year | \$1.43 | \$1.47 | \$1.52 | \$1.56 | \$1.61 | \$1.66 | \$1.71 |
| Single Family Monthly Rate | \$54.68 | \$56.15 | \$57.67 | \$59.23 | \$60.84 | \$62.50 | \$64.21 |

| ACTUAL | 2013 | 2014 | Budget 2015 | Estimated 2015 |
|---------------------------------|---------|---------|-------------|----------------|
| New Connections (ERU's) | 13 | 8 | 9 | 45 |
| Connection Fee | \$6,995 | \$6,995 | \$6,995 | \$6,995 |
| Monthly Rate Increase - by year | \$1.43 | \$0.77 | \$1.10 | |
| Single Family Monthly Rate | \$54.68 | \$55.45 | \$56.55 | |

| 2015 SIX-YEAR FINANCIAL PLAN | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 | 2021 |
|---------------------------------|---------|---------|---------|---------|---------|---------|---------|
| New Connections (ERU's) | 45 | 30 | 25 | 25 | 25 | 25 | 25 |
| Connection Fee | \$6,995 | \$6,995 | \$6,995 | \$6,995 | \$6,995 | \$6,995 | \$6,995 |
| Monthly Rate Increase - by year | \$1.10 | \$1.47 | \$1.52 | \$1.56 | \$1.61 | \$1.66 | \$1.71 |
| Single Family Monthly Rate | \$56.55 | \$58.02 | \$59.54 | \$61.10 | \$62.71 | \$64.37 | \$66.08 |



Sewer Fund 401 Outlook Scenario A: All PWTf Debt from Rates

| SEDRO-WOLLEY SEWER | Base 2015 | Projected 2016 | Projected 2017 | Projected 2018 | Projected 2019 | Projected 2020 | Projected 2021 |
|-------------------------------------|-----------|----------------|----------------|----------------|----------------|----------------|----------------|
| SCEN. A: ALL PWTf FROM RATES | | | | | | | |
| Subtotal Oper. Revenue | 3,771,324 | 3,569,728 | 3,444,596 | 3,496,527 | 3,591,625 | 3,689,999 | 3,791,759 |
| Subtotal Oper. Expen. & Cap. Outlay | 2,944,209 | 2,773,775 | 2,835,081 | 2,898,178 | 2,963,119 | 3,029,959 | 3,098,755 |
| Subtotal Debt Service | 842,615 | 837,659 | 646,707 | 638,755 | 635,804 | 632,852 | 629,900 |
| Subtotal Oper. Cap Outlay & Debt | 3,786,824 | 3,611,434 | 3,481,788 | 3,536,933 | 3,598,922 | 3,662,811 | 3,728,655 |
| Annual Surplus (Deficit) | (15,500) | (41,707) | (37,192) | (40,406) | (7,297) | 27,188 | 63,104 |
| Cumulative % Impact on Rates | 1% | 1% | 1% | 1% | 0% | | |
| Ending Fund Balance | 314,831 | 273,124 | 235,933 | 195,527 | 188,230 | 215,418 | 278,522 |
| Target Ending Balance - Fund 401 | 325,630 | 310,765 | 297,418 | 298,597 | 302,972 | 310,258 | 320,574 |
| | warning | warning | warning | warning | warning | warning | warning |

Rates to increase by CPI each year



Sewer Fund 401

Scenario B: \$100k from Connection Charges for PWTF Debt

| SCENARIO B: \$100,000 FROM CONNECTION CHARGES FOR PWTF LOANS IN 2015/16/17 | | | | | | | |
|--|----------------|-------------------|-------------------|-------------------|-------------------|-------------------|-------------------|
| SEDRO-WOOLLEY SEWER | Base 2015 | Projected 2016 | Projected 2017 | Projected 2018 | Projected 2019 | Projected 2020 | Projected 2021 |
| SEWER FUND 401 | | | | | | | |
| Subtotal Oper. Revenue | 3,771,324 | 3,569,728 | 3,444,596 | 3,496,527 | 3,591,625 | 3,689,999 | 3,791,759 |
| Subtotal Oper. Expen. & Cap. Outlay | 2,944,209 | 2,773,775 | 2,835,081 | 2,898,178 | 2,963,119 | 3,029,959 | 3,098,755 |
| Subtotal Debt Service | 742,615 | 737,659 | 546,707 | 638,755 | 635,804 | 632,852 | 629,900 |
| Annual Surplus (Deficit) | 84,500 | 58,293 | 62,808 | (40,406) | (7,297) | 27,188 | 63,104 |
| <i>Cumulative % Impact on Rates</i> | <i>-3%</i> | <i>-2%</i> | <i>-2%</i> | <i>1%</i> | <i>0%</i> | | |
| Ending Fund Balance | 414,831 | 473,124 | 535,933 | 495,527 | 488,230 | 515,418 | 578,522 |
| Target Ending Balance - Fund 401 | 325,630 | 318,765 | 313,418 | 322,597 | 326,972 | 334,258 | 344,574 |
| | ok | ok | ok | ok | ok | ok | ok |

Rates to increase by CPI each year



Sewer Facilities Fund 410

Scenario B: \$100k from Connection Charges for PWTF Debt

- Remains above Target Minimum Balance

| CUM RES/SWR FACIL FUND 410 | | | | | | | |
|--|------------------|------------------|------------------|------------------|------------------|------------------|------------------|
| Revenue | | | | | | | |
| Annual Surplus (Deficit) | (278,421) | (53,940) | 98,985 | 38,915 | 39,015 | 39,015 | 39,115 |
| Ending Fund Balance (estimated) | 1,193,856 | 1,139,916 | 1,238,901 | 1,277,816 | 1,316,831 | 1,355,846 | 1,394,961 |
| Ending Balance NEW Reserve | - | - | - | 170,000 | 340,300 | 511,000 | 682,000 |
| Target Minimum Fund Balance | 1,077,611 | 1,074,659 | 1,071,707 | 1,068,755 | 1,065,804 | 1,062,852 | 1,059,900 |
| | ok | ok | ok | ok | ok | ok | ok |



Conclusion on Rates

- **Continue with tight belt**
- **Continue to set aside for repair & replacement in 402**
- **Continue annual increases to cover CPI**
- **Continue to review and monitor annually**



Sewer Connection Fees

- **Goal – attract & encourage growth in Sedro-Woolley**
 - Be competitive with neighbors
 - Help pay for sewer improvements
- **Current General Facilities Charge = \$6,995 per ERU**
 - For commercial, \$292 per fixture unit
- **No change is recommended**
 - **Continue to monitor**

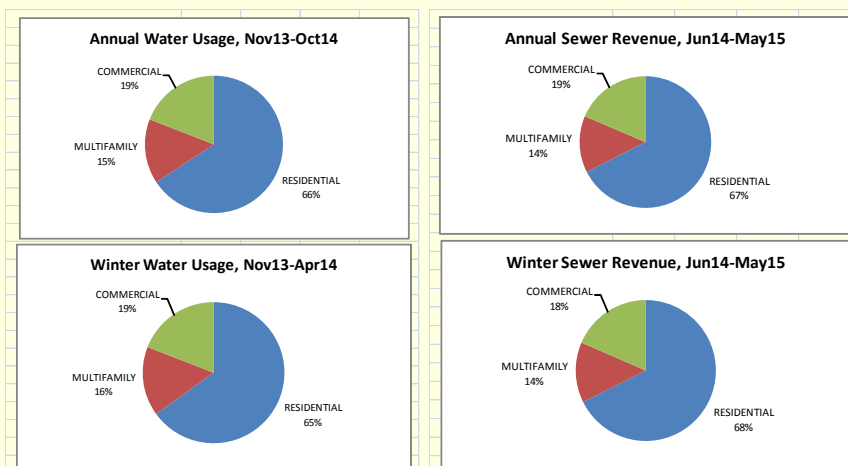


Existing Sewer Rate Structure

- **Residential** = Flat rate \$56.55 per dwelling unit
- **Multifamily** is considered residential
- **Commercial** = Base rate \$56.55 includes 750 cubic feet, + additional volume at \$5.31 per 100cf
 - PUD provides water service and has usage data
 - For commercial, PUD July29-Sept29 is billed half Nov1 and half Dec1



Customer Class Usage & Revenue



Volume-Based Alternatives

- All volume charges (not recommended)
- Base + Volume for all customers
 - Base can include a set amount volume
- Base + Volume by Strength of Waste
 - Low includes residential, offices, etc.
 - Medium includes bars without food service
 - High includes restaurants



Volume-Based Rates

- **PRO's**
 - Customers pay based on amount of service
 - Ability to charge for strength of waste
 - Low use customers will pay less
 - City now has system that can accept PUD data
- **CON's**
 - Customer bills will vary by month & usage
 - Collections issues already higher for families
 - Variable revenue will require larger fund balances
 - Problems for rentals

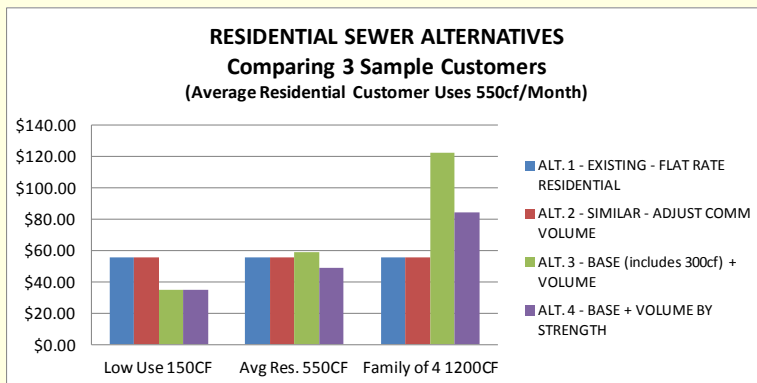


Alternatives

| | ALT 1 - EXISTING | | ALT 2 - Similar | | Alt 3a - Base+Vol | | Alt 4 - Base+Vol Strength | |
|----------------------------|------------------------|--|------------------------|--|----------------------|--|---------------------------|--|
| RES: | Flat | | Flat | | Base+Vol, incl 300cf | | Base+Vol, incl 300cf | |
| COMM: | Base + Vol incl 7.5ccf | | Base + Vol incl 5.5ccf | | Base+Vol, incl 300cf | | Base+Vol, incl 300cf | |
| Base Res | \$56.55 | | \$56.55 | | \$35.00 | | \$35.00 | |
| Base Comm | \$56.55 | | \$56.55 | | \$35.00 | | \$35.00 | |
| Vol Res | \$0.00 | | \$0.00 | | \$9.71 3.0 | | \$5.50 3.0 | |
| Vol Comm | \$5.31 7.5 | | \$5.31 5.5 | | \$9.71 3.0 | | \$9.71 3.0 | |
| Strength Low | | | | | | | \$5.50 3.0 | |
| Strength Med (Bar) | | | | | | | \$7.43 3.0 | |
| Strength High (Restaurant) | | | | | | | \$9.90 3.0 | |



Residential Examples

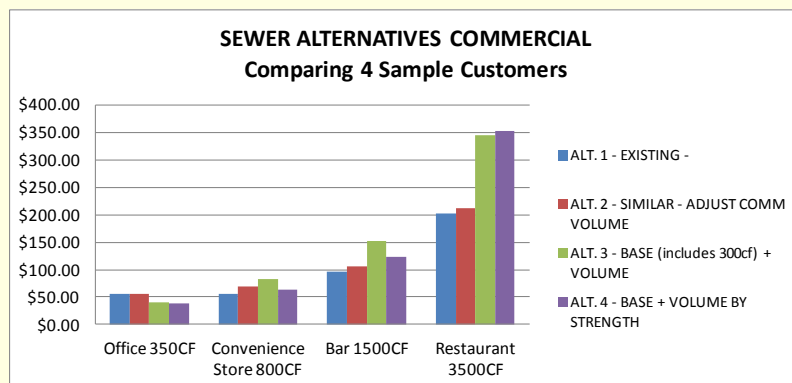


Residential Examples - Numbers

| SEWER - RESIDENTIAL MONTHLY | Low Use 150CF | Avg Res. 550CF | Family of 4 1200CF |
|--|------------------|-------------------|-----------------------|
| ALT. 1 - EXISTING - FLAT RATE RESIDENTIAL | | | |
| RES Flat Rate, COMM Base + Vol (incl 750cf) | \$55.65 | \$55.65 | \$55.65 |
| ALT. 2 - SIMILAR - ADJUST COMM VOLUME | | | |
| RES Flat Rate, COMM Base + Vol (incl 550cf) | \$55.65 | \$55.65 | \$55.65 |
| ALT. 3 - BASE (includes 300cf) + VOLUME | | | |
| RES & COMM Base (incl 300cf) + Vol | \$35.00 | \$59.28 | \$122.39 |
| ALT. 4 - BASE + VOLUME BY STRENGTH | | | |
| RES & COMM Base (incl 300cf) + Vol By Strength | \$35.00 | \$48.75 | \$84.50 |



Commercial Examples



Commercial Examples - Numbers

| SEWER - COMMERCIAL | Office 350CF | Convenience Store 800CF | Bar 1500CF | Restaurant 3500CF |
|---|-----------------|----------------------------|---------------|----------------------|
| ALT. 1 - EXISTING - | | | | |
| COMM Base \$56.55 + Vol (incl 750cf) @ \$5.31/100cf | \$55.65 | \$55.65 | \$95.48 | \$201.68 |
| ALT. 2 - SIMILAR - ADJUST COMM VOLUME | | | | |
| COMM Base \$56.55 + Vol (incl 550cf) @ \$5.31/100cf | \$55.65 | \$68.93 | \$106.10 | \$212.30 |
| ALT. 3 - BASE (includes 300cf) + VOLUME | | | | |
| COMM Base \$35.00 + Vol (incl 300cf) @ \$9.71/100cf | \$39.86 | \$83.55 | \$151.52 | \$345.72 |
| ALT. 4 - BASE + VOLUME BY STRENGTH | | | | |
| COMM Base \$35.00 (incl 300cf) + Vol By Strength | \$37.75 | \$62.50 | \$124.16 | \$351.80 |
| | Low | Med | Med | High |



Volume-Based Sewer Rates

Conclusions:

- **Any change will result in shifting the burden from one class to another**
- **Will need time to sort out implementation issues**
 - Customers on wells
 - Commercial customers by strength
 - Modifications to billing system
 - Coordination with PUD address differences
 - Notify customers



Questions

- **Seeking direction from Council :**
 - which alternative to further develop?



Primary Sewer Funds

- **Sewer Fund 401 –**
 - Monthly rates are primary source of revenue
 - Provides annual surplus or (deficit)?
 - Meets target minimum balance – 8% revenue?
- **Sewer Facility Fund 410 –**
 - Connection charges are deposited
 - PWTF loans payments made, includes transfer from 401 for debt
- **Sewer Facilities Reserve Fund 402 –**
 - Annual transfer from rates
 - Schedule equipment repair/replace to fit

